

Order: 2003-5-6
Served: May 9, 2003



**UNITED STATES OF AMERICA
DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY
WASHINGTON, D.C.**

Issued by the Department of Transportation
on the **6th day of May, 2003**

Essential Air Service at

**FORT DODGE, IOWA
MASON CITY, IOWA**

under 49 U.S.C. 41731 *et seq.*

**Docket OST-2001-10684
Docket OST-2001-10682**

ORDER SELECTING CARRIER

Summary

By this order, the Department is selecting Mesaba Aviation, Inc. d/b/a Northwest Airlink (Mesaba), an affiliate of Northwest Airlines, to provide subsidized essential air service (EAS) for a two-year period at Mason City and Ford Dodge, Iowa, at a combined annual rate of \$2,176,708. (See Appendix A for a map.)

Background

On September 17, 2001, Mesaba filed 90-day notices of its intent to suspend its subsidy-free service at Mason City and Ford Dodge, effective January 1, 2002. By Order 2001-12-26, the Department prohibited Mesaba from suspending service at both communities and requested proposals, with subsidy if necessary, from carriers interested in providing replacement service. In response to our request for proposals, we received proposals from Mesaba, Great Lakes Aviation, Ltd. (Great Lakes), a code-share affiliate of United Air Lines, and Corporate Airlines, Inc. (Corporate), a code-share affiliate of American Airlines. On July 30, 2002, the Department issued Order 2002-7-38 that set a temporary,

hold-in subsidy rate for Mesaba to continue serving Fort Dodge and Mason City pending a long-term carrier-selection decision.

Mesaba agreed to continue to provide three daily nonstop round trips to Northwest's hub at Minneapolis with 34-seat Saab 340 aircraft for an annual subsidy of \$2,176,708, the same as the "hold-in" subsidy rate set by Order 2002-7-38. On November 20, 2002, Corporate formally withdrew its proposal to serve the communities. Also, on April 17, 2003, Great Lakes notified us that it was withdrawing its proposal to serve both communities.

Community Comments

We have received comments from both communities expressing their wholehearted support for Mesaba, with its Northwest Airlink code-share relationship with Northwest Airlines, and the importance of the carrier's current and future service to Northwest's Minneapolis hub. Fort Dodge broadly stated that commercial air service to the vast area that makes up north and northwest Iowa is essential to the long-term viability of the smaller communities that make up the Fort Dodge-region of Iowa as the economy of the region and state struggles to "transition from (a) predominately agricultural based economy to a more diverse economic model." The community's comments also stated their view of the importance of the EAS program in general to small communities because "the program recognizes the need to keep regions connected to the country and the world." Finally, Fort Dodge stressed their support for Mesaba's professional and reliable service and stated that "our community, city and county leaders feel strongly that Mesaba Airlines is the best carrier to serve our community and augment economic development in our area." Mason City offered similar comments of support for the selection of Mesaba and its association with Northwest Airlines. The community further stated that with the hoped-for selection of Mesaba, they are anxious to finalize arrangements with the carrier for more frequent service to Minneapolis using the grant the community received under the Small Community Air Service Pilot Development Program authorized by the AIR-21 legislation.¹

Decision

We have decided to select Mesaba to provide subsidized EAS at Fort Dodge and Mason City for the two-year period beginning on the first day of the month following the service date of this order. Mesaba has served both Mason City and Fort Dodge for many years on a subsidy-free basis. However, a combination of factors affecting the entire airline industry has resulted in decreased passenger revenues and, at the same time, increased operating expenses resulted in this formerly profitable route becoming unprofitable. Mesaba continues to provide both communities with a reasonable pattern of service to Northwest Airline's connecting hub at Minneapolis. Because of the carriers' long-standing service to the region and its continuing relationship with Northwest, evidenced

¹ The Wendell H. Ford Aviation Investment and Reform Act for the 21st Century, P.L. 106-181, signed April 5, 2000. Among other things, the statute established a new pilot program designed to help smaller communities enhance their air service. See Order 2002-6-14 that awarded grants under the pilot program.

through its Northwest Airlink code-sharing service relationship, we expect Mesaba to continue to work with each community to provide a complete package of connecting opportunities for local passengers, as well as to visitors to the region. We also fully expect the communities to share in the responsibility for making the service successful. In that regard, we note that we are authorizing nearly \$2.2 million a year for Mesaba's proposed service. Towards the end of this two-year contract we will be examining service and subsidy levels with the expectation that the passenger levels will be increasing and subsidy levels will be lower. Thus, based on all of the above, we will select Mesaba to serve Fort Dodge and Mason City for a two-year period at the proposed subsidy rate of \$2,176,708 per year to provide three daily round trips to Minneapolis with 34-seat Saab 340 aircraft.

Carrier Fitness

49 U.S.C. 41737(b) and 41738 require that we find an air carrier fit, willing, and able to provide reliable service before we may subsidize it to provide essential air service. Mesaba was most recently found fit to provide scheduled passenger service by Order 2002-12-21, December 30, 2002, selecting Mesaba to provide EAS at Muscle Shoals, Alabama. Since that time, no information has come to our attention that would lead us to question the carrier's ability to operate in a reliable manner. The FAA has advised us that the carrier is conducting its operations in accordance with its regulations, and knows of no reason why we should not find that Mesaba is fit. Based on the above, we find that Mesaba is fit to provide the essential air transportation at issue in this case.

This order is issued under authority delegated in 49 CFR 1.56a (f).

ACCORDINGLY,

1. The Department selects Mesaba Aviation, Inc. d/b/a Northwest Airlink, to provide essential air service at Fort Dodge and Mason City, Iowa, as described in Appendix B for the two-year period beginning on the first day of the month following the service date of this order;
2. The Department sets the final rate of compensation for Mesaba Aviation, Inc. d/b/a Mesaba Airlines, for the provision of essential air service at Fort Dodge and Mason City, Iowa, as described in Appendix B for the two-year period described above, payable as follows: for each calendar month during which essential air service is provided, the amount of compensation shall be subject to the weekly ceiling set forth by Appendix B and shall be determined by multiplying the subsidy-eligible flights each way per community completed during the month by \$513.74;²

² See Appendix B for the calculation of this rate, which assumes the use of the aircraft designated. If the carrier reports a significant number of aircraft substitutions, a revision of this rate may be required.

3. The Department directs Mesaba Aviation, Inc. d/b/a Mesaba Airlines to retain all books, records, and other source and summary documentation to support claims for payment, and to preserve and maintain such documentation in a manner that readily permits its audit and examination by representatives of the Department. Such documentation shall be retained for seven years or until the Department indicates that the records may be destroyed. Copies of flight logs for aircraft sold or disposed of must be retained. The carrier may forfeit its compensation for any claim that is not supported under the terms of this order;
4. We find that Mesaba Aviation, Inc. d/b/a Mesaba Airlines continues to be fit, willing and able to operate as a certificated air carrier and capable of providing reliable essential air service at Mason City and Ford Dodge, Iowa;
5. These Dockets will remain open until further order of the Department; and
6. We will serve copies of this order on the Mayors of Fort Dodge and Mason City, Iowa, the managers of the Fort Dodge Regional Airport and the Mason City Municipal Airport, the Governor of Iowa, the Director of Aviation of the Iowa Department of Transportation, Great Lakes Aviation, Ltd., Corporate Airlines, Inc., and Mesaba Aviation, Inc.

By:

READ C. VAN DE WATER
Assistant Secretary for Aviation
and International Affairs

(SEAL)

*An electronic version of this document is available on the World Wide Web at
<http://dms.dot.gov/>*

AREA MAP



Mesaba Aviation, Inc.
Essential Air Service To Be Provided At
Fort Dodge and Mason City, Iowa

Effective period: Two-year period beginning on the first day of the month following the service date of this order.
Service: 21 round trips per community per week to Minneapolis routed FOD-MCW-MSP
Timing of Flights: Flights must be well-timed and well-spaced to ensure full compensation
Aircraft type: Saab 340 (34 passenger seats).
Subsidy Rate per Flight: \$513.74¹

Weekly Compensation Ceiling: \$21,577.08²

Note: The carrier understands that it may forfeit its compensation for any flights that it does not operate in conformance with the terms and stipulations of the rate order, including the service plan outlined in the order and any other significant elements of the required service, without prior approval. The carrier understands that an aircraft take-off and landing at its scheduled destination constitutes a completed flight; absent an explanation supporting subsidy eligibility for a flight that has not been completed, such as certain weather cancellations, only completed flights are considered eligible for subsidy. In addition, if the carrier does not schedule or operate its flights in full conformance with this order for a significant period, it may jeopardize its entire subsidy claim for the period in question. If the carrier contemplates any such changes beyond the scope of the order during the applicable period of these rates, it must first notify the Office of Aviation Analysis in writing and receive written approval from the Department to be assured of full compensation. Should circumstances warrant, the Department may locate and select a replacement carrier to provide service on these routes. The carrier must complete all flights that can be safely operated; flights that overfly points for lack of traffic will not be compensated. In determining whether subsidy payment for a deviating flight should be adjusted or disallowed, the Department will consider the extent to which the goals of the program are met and the extent of access to the national air transportation system provided to the community.

If the Department unilaterally, either partially or completely, terminates or reduces payments for service or changes service requirements at a specific location provided for under this order, then, at the end of the period for which the Department does make payments in the agreed amounts or at the agreed service levels, the carrier may cease to provide service to that specific location without regard to any requirement for notice of such cessation. Those adjustments in the levels of subsidy and/or service that are mutually agreed to in writing by the parties to the agreement do not constitute a total or partial reduction or cessation of payment.

Subsidy contracts are subject to, and incorporate by reference, relevant statutes and Department regulations, as they may be amended from time to time. However, any such statutes, regulations, or amendments thereto shall not operate to controvert the foregoing paragraph.

¹ \$2,176,708 compensation, divided by 4,237 one-way flights at Fort Dodge and Mason City, calculated as follows: 21 flights/week per community (42) * 52 weeks * .97 completion factor * 2 = 4,237 flights.

² 42 flights per week x \$513.74 = \$21,577.08.

Mesaba Aviation, Inc, d/b/a Northwest Airlink
Proposal to Provide Subsidized EAS at Fort Dodge and Mason City, Iowa
Calculation of Subsidy Requirement

Time Period	Annual
Nonstop Miles	181 & 120
Weekly Round Trip Service	21 1 & 0-Stops 4/
Block Hours	2,966 5/
Weighted Departures	4,237 5/
Turns at Hub	2,118 5/
Revenue Passenger Miles	5,684,923
Passengers	39,392 6/
Fare ^{1/}	\$48.95
Passenger Revenue	\$1,928,238
<u>Other Revenue</u>	<u>\$106,422</u>
Total Revenue	\$2,034,660
Pilots and Flight Attendant @ \$237.64/hr.	\$704,840
Fuel @ \$133.28/hr. ^{2/}	\$395,308
Hull Insurance @ \$5.39/hr.	\$15,987
Flight Maintenance @ \$215.05/hr.	\$637,838
Lease @ \$184.89/hr.	\$548,384
<u>Depreciation @ \$44.83</u>	<u>\$132,966</u>
Total Direct Costs	\$2,435,323
Station rent	\$24,768
Landing fee/turn.	\$97,809
Deicing/turn	\$86,838
Station agents	\$297,844
Communications	\$14,490
<u>Passenger Screening @ \$15.99/turn</u>	<u>\$50,800</u>
Total EAS station Costs	\$572,549
Landing fee/turn @ MSP	\$49,868
<u>Handling/turn @MSP</u>	<u>\$202,237</u>
HUB station Costs	\$252,105
Passenger fees @ \$5.85/pax.	\$230,443
Credit Cards @ 2%	\$38,565
Comm. & Mktg. @ 2.04%	\$39,336
Insurance	\$88,277
Ground maintenance @ \$44.70/wtd. dep.	\$142,012
<u>General & Administrative Costs @ \$71.55/wtd.hr.</u>	<u>\$212,217</u>
Total Indirect Costs	\$1,575,504
Operating Expense ^{3/}	\$4,010,827
<u>Return @ 5%</u>	<u>\$200,541</u>
Economic cost	\$4,211,368
Annual Subsidy @ 97%	\$2,176,708
Subsidy per weighted departure/community	\$513.74
Maximum subsidy per week per community	\$21,577.08

1/ Beyond revenue allocated to EAS based on published Y-Fares, crosschecked to block. time.

2/ 136 gph*\$.98/gallon, including oil. Note: \$.98/gallon reflects actual price, not fixed price guaranteed by Northwest to Mesaba reflected in the Form 41.

3/ Unit costs in general based on those agreed to at Laurel/Hattiesburg.

4/ 34 seats x 3/day x 365 days x 2 = 74,460 seats. YE 8/31/01, 21,314 FOD pax. and 29,837 MCW pax., or 68.7% critical segment load factor.

5/ FOD-MCW-MSP: 42 flights/week x (31+53)min. x 52 weeks x .97/60 = 2,966 hrs., 4,237 departures, 2,118 turns.

6/ CY 2001. FOD: 17,448 passengers. x .90 = 15,703. MCW: 24,936 passengers x .95 = 23, 689.